



Pillar 3 disclosures
3i Investments plc
As at 30 September 2009

Background

3i is a world leader in private equity investing across Europe, Asia and North America. 3i Group plc (“Group”) invests from its own balance sheet and also with funds that are advised or managed on behalf of external parties.

3i Investments plc is a BIPRU €125k limited license firm required to disclose its Pillar 3 disclosure requirements in accordance with BIPRU 11.5. 3i Investments plc, 3i Nordic plc and 3i Europe plc are the entities within the consolidated 3i Group plc structure, which are subject to regulation by the Financial Services Authority (FSA). This document details the Group’s Pillar 3 disclosure requirements.

This document provides an interim update to the Group’s Pillar 3 disclosure and comprises a detailed update of the quantitative disclosures required (see Capital resources on page 12). The qualitative disclosures have not changed materially in the six months to 30 September 2009, as stated on page 15 of the 3i Group plc Half-yearly report.

Scope

3i Investments plc is the regulated entity within the 3i Group subject to the consolidated reporting requirements. The firm is subject to solo and consolidated minimum regulatory capital requirements. The same principles are followed to determine the consolidated group for accounting and prudential purposes. It is worth noting that the Group does not operate a trading book; details of non-trading book exposures are included within this document. There are no impediments to the prompt transfer of capital resources or repayment of liabilities among the Group and its subsidiaries.

Risk Management

This section sets out the main elements of 3i’s risk management framework together with a description of the main inherent risks factors facing the Group, and a review of the evolution and management of the Group’s key risks during the year to 31 March 2009, noting any material changes in the six months to 30 September 2009.

Introduction to risk management

Risk management operates at all levels throughout the Group, across business lines, geographies and professional functions. The Board is ultimately responsible for risk management, which includes the Group’s risk governance structure and maintaining an appropriate internal control framework. Management’s responsibility is to manage risk on behalf of the Board.

By reporting regularly to Audit and Compliance Committee, the Group’s Compliance and Internal Audit functions provide support to the Board in maintaining effective risk management across the Group. This risk management framework and the main responsibilities of each committee are shown below.

The key components of 3i's risk management framework which is regularly reviewed remain fundamentally the same as last year, with some modifications to address the increased risks related to the deterioration in market and economic conditions; most notably the introduction of more regular meetings of a sub-committee of the Group Risk Management Committee chaired by the Chief Executive.

Risk management framework

3i has a risk management framework which provides a structured and consistent process for identifying, assessing and responding to risks in relation to the Group's strategy and business objectives.

Group governance

A formal review of the effectiveness of the risk management framework was carried out in March 2009. The principal conclusion of this review was that the basic framework remained sound, although the terms of reference and membership of the main committees were updated where necessary to eliminate some overlap in coverage and to support further the effectiveness of the current structure.

These changes were agreed with a view to improving oversight and decision taking in relation to balance sheet management, including foreign exchange risk, and to investment portfolio risks.

Group Risk Management Committee

The Group Risk Management Committee is responsible for overall risk management process. Its main tasks are to:

- Monitor changes in the external risk environment
- Review reports from the Portfolio Risk, Operational Risk and Treasury Management Committees
- Provide periodic reports to the Audit and Compliance Committee

The roles of the respective reporting committees are as follows:

Portfolio Risk Committee – to monitor the risk in the Group's investment portfolio and advise on appropriate metrics and actions to manage that risk.

Operational Risk Committee – to monitor all aspects of operational risk and advise on appropriate actions to manage those risks

Treasury Management Committee – to monitor treasury and funding risks and advise on the appropriate policy and management framework

Risk factors

The table below sets out the definitions of each key risk type; the key developments for each category during the year and a summary of the main risk mitigation processes. Further information can be found in the 3i Group plc Report and Accounts for the period ended 31 March 2009, in the relevant sections described below;

Risk Type	Key Developments	Further Information	Risk Mitigation
External Risks arising from current, proposed and anticipated political, legal, regulatory, economic and competitor changes	<ul style="list-style-type: none"> - Adverse economic and market conditions impacting (i) liquidity and net debt; (ii) investment levels; (iii) portfolio performance and (iv) valuations - Regulatory developments 	Overview <ul style="list-style-type: none"> - Chairman's statement, 3i at a glance, Our priorities and strategy, Chief Executive's statement Business review <ul style="list-style-type: none"> - Market conditions, 3i's approach 	<ul style="list-style-type: none"> - Regular Group Risk Management Committee and Board reviews - Close monitoring of regulatory and fiscal developments in main markets - Diversified investment portfolio in a range of sectors, with different economic cycles, across geographical markets
Strategic Risks arising from the analysis, design and implementation of the Group's business model, and key decisions on the investment levels and capital allocations	<ul style="list-style-type: none"> - Organisational changes, including changes to senior management - Acceleration or initiation of corporate projects in context of current market 	Overview <ul style="list-style-type: none"> - Chairman's statement, 3i at a glance, Our priorities and strategy, Chief Executive's statement Business review <ul style="list-style-type: none"> - Market conditions, 3i's approach 	<ul style="list-style-type: none"> - Monitoring of a range of key performance indicators, forecasts and periodic updates of plans and underlying assumptions - Regular monitoring by Group Risk Management Committee - Monitoring of key projects
Investment Risks in respect of specific asset investment decisions, the subsequent performance of an investment or exposure concentrations across business line portfolio	<ul style="list-style-type: none"> - Significantly reduced investment and realisation levels - Impact of current economic environment on portfolio management processes; earnings; leverage; valuation multiples 	Overview <ul style="list-style-type: none"> - 3i at a glance Business review <ul style="list-style-type: none"> - Market conditions, 3i's approach; Investment activity, Business lines Financial review <ul style="list-style-type: none"> - Returns, Portfolio and assets under Management Financial statements Portfolio and additional information	<ul style="list-style-type: none"> - Investment Committee approval of all significant investments - Regular asset reviews, including risk assessments - Representation by a 3i investment executive on the boards of investee companies - Portfolio is subject to periodic reviews at both the business line and Group levels to monitor exposure to any one sector or geography
Treasury and funding Risks arising from: (i) uncertainty in market prices and rates, (ii) an inability to raise adequate funds to meet investment needs or meet obligations as they fall due, or (iii) inappropriate capital structure	<ul style="list-style-type: none"> - Impact of market and economic turbulence on Group's financial position, in particular liquidity and net debt, and currency management 	Overview <ul style="list-style-type: none"> - Chief Executive's statement Business review <ul style="list-style-type: none"> - market conditions Financial review <ul style="list-style-type: none"> - capital structure, gearing and liquidity Financial statements	<ul style="list-style-type: none"> - Credit risk exposure is managed on an asset-specific basis by individual investment managers - Regular Board reviews of the Group's financial resources - Regular reviews of liquidity, gearing, net debt and large currency exposures
Operational Risk arising from inadequate or failed processes, people and systems or from external factors affecting these	<ul style="list-style-type: none"> - Execution of organisational changes and other corporate initiatives 	Business review Corporate responsibility report Governance report	<ul style="list-style-type: none"> - Line management at all levels is responsible for identifying, assessing, controlling and reporting operational risks - Framework of core values, global policies, a code of business conduct and delegated authorities are in place - Independent internal audit function carries out periodic reviews

External risks

Macroeconomic risks

3i invests mainly in European companies and continues to develop its operations in Asia and North America. The performance of the Group's underlying investment portfolio is influenced by economic growth, interest rates, currency movements and changes in commodity and energy prices. Market conditions for initial public offerings, the level of mergers and acquisitions activity, the number of active trade or other private equity buyers and the availability of debt finance, all have an impact, not only on the Group's ability to invest but on the Group's ability to exit from its underlying portfolio, or on the levels of profitability achieved on exit.

To mitigate this, 3i aims to invest over time in a range of sectors, with different economic cycles, across its different business lines and geographical markets.

Geopolitical risk

Part of the Group's investment strategy is to invest in new and emerging markets. The legal, regulatory and capital frameworks in these markets may be less developed than in the other main geographical markets in which the Group operates. Changes and developments in each market are monitored closely to ensure that any impact on the value of existing investments, planned levels of investment or investment returns are, as far as possible, anticipated, understood and acted upon. This work includes periodic legal and regulatory updates by geography, in-depth market and sector research and regular reviews for existing investments. Entry into new geographical markets is subject to extensive market research and due diligence.

Government policy and regulation

3i Investments plc, 3i Europe plc and 3i Nordic plc, all wholly-owned subsidiaries of 3i Group plc, are authorised persons under the Financial Services and Markets Act 2000 and regulated by the FSA in the United Kingdom. Where applicable, certain 3i subsidiaries' businesses outside the United Kingdom are regulated locally by relevant authorities. Changes to the regulatory frameworks under which the Group operates are closely monitored by the Operational Risk Committee. There are also appropriate processes and procedures in place, including a dedicated Group Compliance function, whose remit is to minimise the risk of a breach of applicable regulations which could affect the Group's compliance costs, its business or results.

The European Commission has proposed a Directive on Alternative Investment Fund Managers (which covers hedge funds and private equity) as well as recommendations on executive remuneration and remuneration in the financial services sector. The draft Directive contains requirements on authorisations, reporting and disclosure and minimum capital. It is too early to say when and if the Directive will be agreed and implemented. This is part of the Commission's response to the current financial crisis.

3i carries on business as an investment trust under section 842 of the Income and Corporation Taxes Act 1988. Continuation of this approval is subject to the Company directing its affairs in line with the requirements of the legislation. Changes in government policy and taxation legislation which could affect the results of the Group's operations or financial position are closely monitored.

3i complies with the 'Guidelines for Disclosure and Transparency in Private Equity', known as the Walker guidelines, which is a voluntary code published in November 2007.

Strategic risks

The Group's strategy is based on a full analysis of its operating environment. In determining the appropriate business model, market and sector evaluations are taken into account, as well as the identification and assessment of external and internal risk factors. Significant unexpected changes or outcomes, beyond those factored into the Group's strategy and business model, may occur which could have an impact on the Group's performance or financial position. This is addressed through the monitoring of a range of key performance indicators, forecasts and periodic updates of plans and underlying assumptions.

Investment risks

Investment decisions

The Group operates in a very competitive market. Changes in the number of market participants, the availability of funds within the market, the pricing of assets, or in the ability to access deals on a proprietary basis could have a significant effect on the Group's competitive position and on the sustainability of returns. The ability of the Group to source and execute good quality investments in such markets is dependent upon a range of factors. The most important of these include: (i) the ability to attract and develop people with the requisite investment experience and cultural fit; (ii) organisation of teams whose structure is market-adapted and whose compensation is results-oriented; and (iii) effective application of collective knowledge and relationships to each investment opportunity.

3i's investment appraisal is undertaken in a rigorous manner. This includes approval by the relevant business line partnerships, and where appropriate, peer review by executives from other business lines, together with 3i's international network of industry and sector specialists. Investments over £5 million are presented to an Investment Committee chaired by an authorised member of the Management Committee and comprising our senior investment executives.

Investment performance

The performance of the Group's portfolio is dependent upon a range of factors. These include, but are not limited to: (i) the quality of the initial investment decision described above; (ii) the ability of the portfolio company to execute successfully its business strategy; (iii) actual outcomes against the key assumptions underlying the

portfolio company's financial projections; and (iv) market conditions which affect the value of investments. Any one of these factors could have an impact on the valuation of a portfolio company and upon the Group's ability to make a profitable exit from the investment within the desired timeframe.

A rigorous process is put in place for managing the relationship with each investee company for the period through to realisation. This includes regular asset reviews and, in many cases, board representation by a 3i investment executive.

Investment concentration

The Group invests across a range of economic sectors and geographies. Over-exposure to a particular sector or geography could increase the impact of adverse changes in macroeconomic or market conditions on the Group. An increase in the average size of investments over time could also increase the exposure of the Group to the performance of a small number of large investments, albeit in different sectors and/or geographies. The portfolio is subject to periodic reviews by the Financial Risk Committee and by individual business lines in order to monitor exposure to any one sector or geography and to monitor the exposure to larger investments. One of the conditions set out under section 842 of the Income and Corporation Taxes Act 1988 is that no single investment can exceed 15% of the Group's investment portfolio to maintain the Group's tax status as an Investment Trust. This also mitigates the Group's exposure to investment concentration risk.

Investment valuations and exit opportunities

The valuation of 3i's portfolio and opportunities for realisations depend to a considerable extent on stock market conditions and the state of the wider mergers and acquisitions market. Changes in market or macroeconomic conditions impact the valuation of portfolio assets and the ability to exit those investments profitably within the desired timeframe.

Treasury and funding risks

3i's funding objective is that each category of investment asset is broadly matched with liabilities and shareholders' funds according to the risk and maturity characteristics of the assets and that funding needs are met ahead of planned investment.

Credit risk

3i's financial assets are predominantly unsecured investments in unquoted companies. An increase in concentration of the portfolio in a particular economic sector or geography could increase credit risk. Likewise, large or unexpected increases in interest rates could increase credit risk, particularly in companies which are highly leveraged.

The Group considers the maximum credit risk to be the carrying value of loans and receivables and credit risk exposure is managed on an asset specific basis by individual investment managers. Regular asset reviews within each business line provide an insight into the trading performance of individual assets and give an early indication of increased credit risk. Leverage levels and performance of individual assets are also reviewed periodically by the Financial Risk Committee.

The Group's remaining credit risk exposure is in financial assets and are mainly in the form of deposits with banks of a credit rating of AA or better. Counterparty limits are set and closely monitored.

Liquidity risk

The Group invests from its own balance sheet using cash generated from its investing activities and its core funding. The Group also has available to it undrawn committed facilities. In addition to funding from its own balance sheet, the Group periodically raises external funds and also invests indirectly through funds administered by third parties, or quoted investment vehicles. Unexpected changes in the levels of investment and divestment activities or in interest rates could impact the availability of funds required for investment needs or to meet obligations as they fall due.

To manage this, a range of cash flow forecasts are produced and updated on a weekly basis for each business line and for the Group as a whole. These forecasts are considered by the Group Risk Management Committee. The Board also reviews the Group's financial resources on a regular basis. This includes consideration of the currency hedging and maturity profile aspects, as well as liquidity, of the Group's current and forecast financial position.

Price risk

The value of quoted investments is directly related to the relevant market and so subject to price risk. The value of unquoted investments depends upon a

combination of market factors and the performance of the underlying asset. The Group does not currently hedge the market risk inherent in the portfolio but manages asset performance risk on an asset-specific basis.

Foreign exchange risk

3i reports in sterling and pays dividends from its sterling profits. The Group seeks to reduce structural currency exposures by matching investment assets denominated in foreign currency with borrowings in the same currency. The Group makes only limited use of derivative financial instruments to effect foreign exchange risk management when appropriate.

Assets denominated in currencies other than sterling have historically been hedged using a combination of currency borrowings and short-term derivative contracts. In recent years, the use of short-term contracts increased. The cost of rolling over these contracts increased to such an extent that the Board decided to rely solely on currency borrowings as the hedging strategy for the time being.

In the short term, 3i is therefore only partially hedged through the use of matching borrowings and will be exposed to potential foreign exchange fluctuations. The Board reviews hedging strategy on a periodic basis.

Interest rate risk

3i has a mixture of fixed and floating-rate assets. The assets are funded with a combination of shareholders' funds and borrowings according to the risk characteristics of the assets. The Board seeks to minimise interest rate exposure by considering the average life profile of the various asset classes and adopting a portfolio approach to the interest rate hedging structure. Some derivative financial instruments are used to achieve this objective. These derivative positions are limited to 'plain vanilla' instruments and do not include exotic options.

Operational risks

The Group is exposed to a range of operational risks which can arise from a combination of shortcomings in processes, people or systems or from external factors affecting these. These include operational events such as human resources risks, legal and regulatory risks, information technology systems failures, business disruption and shortcomings in internal controls. Line management at all levels is responsible for identifying, assessing, controlling and reporting operational risks. This is supported by a framework of core values, global policies and controls, a code of business conduct and delegated authorities. The Operational Risk Committee exercises oversight and regularly monitors operational risk throughout the business. There is also an independent internal audit function which carries out periodic reviews.

People

The ability to recruit, develop and retain capable people is of fundamental importance to achieving the Group's strategy. The Group operates in a competitive industry and

aims to remunerate staff in line with market practice and to provide superior development opportunities. The Group has human resources policies and procedures covering recruitment, vetting and performance management and appropriate processes in place to monitor their application. Staff engagement is also regularly evaluated and reported to the Board.

Business processes

The Group's information technology and treasury systems, as well as its business processes and procedures, support its operations and business performance. The Group has policies and procedures covering information security, change management, business continuity and disaster recovery. These are subject to periodic testing.

Legal and regulatory

In order to conform to necessary legal and regulatory requirements across multiple jurisdictions, the Group operates a complex legal and corporate structure. This requires appropriate internal processes and procedures to be developed and followed, supported by professional teams with appropriate skills, drawing upon external resources where appropriate.

Review of risks

Evolution of risks during the full year

The year to 31 March 2009 was a year of severe economic challenge. As a result, and in common with most other businesses, 3i's risk profile has shifted fundamentally as a result of the unprecedented combination of factors including the collapse of credit markets; high market volatility; complex and unforeseen risk interdependencies; and the onset of recession in the main markets in which the Group operates. Whilst the Group's risk framework has operated as intended throughout the period, this has meant that the consequences of this combination have, at times, been difficult to predict, particularly in the latter half of the year. Examples include the very significant deterioration in market multiples, and thus the portfolio valuation, driving up the gearing ratio and the rapid weakening of sterling resulting in the decision to close out the Group's hedging swap portfolio. In response to this complexity, regular special Group Risk Management Committee meetings, chaired by the Chief Executive, were set up in October 2008 at which developments in areas of higher risk are considered, together with the need for further action, with regular updates provided to the Board.

The main changes to the Group's risk profile were in relation to an increase in the estimated severity of several key risks identified at the start of the financial year; in particular the areas of liquidity and refinancing risk and the management of gearing and net debt.

Risk management

The Group's risk management strategy has been adapted to address the changes in 3i's risk profile, as with other businesses, the speed, severity and uncertainty of events over the past year have been a challenge. A key assumption underpinning this strategy is that the current economic recession will be prolonged, affecting earnings and valuations across the portfolio, the availability of credit, consumer demand and levels of taxation. In this context, there has been a significantly increased focus on the risks inherent in the investment portfolio and Group's balance sheet management.

Reviews of the performance of investment portfolio companies have increased in frequency and intensity, supported by improved availability and use of management information and detailed risk assessments, including for example close monitoring of refinancing risks and potential reputational risks. The new role of Managing Partner, Investments, was created in early 2009 to ensure consistency and rigour in all investment decisions.

A further priority was to reduce the Group's current level of financial risk, specifically the levels of net debt and unhedged currency exposures, as outlined in the Chief Executive's statement in the 3i Group plc Report and Accounts 2009. Subsequent to this the successful completion of the £732 million rights issue and other actions to generate cash, enabled the reduction in net debt from £1.9 billion at 31 March 2009 to £854 million at the end of September 2009.

The implications of the proposed European Directive on Alternative Investment Fund Managers (as to which see above), affecting the regulation of private equity, will need to be evaluated in the context of the Group's operations.

Finally, corporate responsibility and business sustainability is of increasing importance, particularly when trust in the financial services sector has declined significantly.

Capital resources

3i Investments plc reports to the FSA at the consolidated and solo level. 3i Investments plc calculates capital resources in accordance with GENPRU 2 Annex 4 “the capital resources calculation for an investment firm deducting material holdings”. The consolidated regulatory capital requirement for 3i Investments plc at 30 September 2009 was £682m. The actual consolidated capital held by the Group at 30 September 2009 was £2,581m, giving a surplus of £1,899m.

The following table shows the Groups consolidated capital resources at 30 September 2009:

	£m
Tier one capital	
Permanent share capital	717
Profit and loss account	1,265
Share premium account	777
Other reserves	62
	2,821
Deductions from tier one capital	
Investments in own shares	(75)
Total tier one capital after deductions	2,746
Tier two capital	-
Deductions from tiers one and two capital	
Material holdings*	(165)
Total tier one plus tier two capital after deductions	2,581
Surplus capital resources	1,899

* Material holdings relate to the credit and financial institutions included within the Group’s investment portfolio.

The 3i Investments plc solo return can be found in appendix 1.

Capital adequacy

The firm maintains sufficient capital in order to meet the FSA regulatory requirements and maintains capital above the Pillar 2 requirement. The capital adequacy of the firm is considered as part of the annual Individual Capital Adequacy Assessment Process (ICAAP). The following table discloses the Group's Pillar 1 requirement as at 30 September 2009:

	September 2009
	£m
Credit risk	471
Market risk	211
Total credit and market risk	682
Fixed overhead requirement	58
Pillar I capital requirement	682
Excess capital resources – Pillar 1	1,899

Pillar 1

Pillar 1 risks are reviewed and reported to the FSA in accordance with the FSA handbook reporting timetable, and in accordance with GENPRU 2.1.45 the firms Pillar 1 requirement is the higher of:

- Credit risk plus market risk requirement; and
- Fixed overhead requirement.

Credit risk

Credit risk is calculated in accordance with the standardised approach given in BIPRU 3, and disclosed here in accordance with BIPRU 11.5.4. The following table details the calculation of credit risk as at 30 September 2009:

	Exposure	Risk factor	Risk weighting	Capital requirement
	£m			£m
- Investment portfolio*	3,615	8%	150%	434
- Derivatives and other assets	131	8%	100%	10
- Cash and deposits	1,673	8%	20%	27
Credit risk requirement				471

*Excluding credit and financial institutions

Credit risk is further disclosed in the credit risk section of the financial risk management note in the 3i Group plc Report and Accounts 2009. Assets are considered past due in accordance with the definition of past due in International

Financial Reporting Standard 7: Financial Instruments disclosure. Where a portfolio company has failed or is expected to fail in the next 12 months, the Group's policy is to record a provision for the full amount of the loan. Loan impairments are made when the valuation of the portfolio company implies non-recovery of all or part of the Group's loan investment.

Market risk

Market risk is calculated in accordance with the standardised approach in BIPRU 7 and determined by the Group's exposure to foreign exchange and calculate in accordance with BIPRU 7.5.19, which states a firm must calculate its open currency position by:

- calculating the net position in each currency
- converting each net position into the base currency
- summing all short net positions and summing all long net positions
- select higher of the longs or shorts
- multiply by 8%

Fixed overheads requirement

The fixed overheads requirement is calculated as equal to one quarter of the firm's relevant fixed expenditure calculated in accordance with GENPRU 2.1.54 R. Per the calculations above the fixed overheads requirement is £58m, which is less than credit and market risk and therefore the Pillar 1 requirement is £682m.

Pillar 2 (ICAAP)

The Group's ICAAP is the result of the risk management processes in place, as described in the risk management section, and determines the Group's Pillar 2 requirement.

The assessment of the risk factors faced by the Group are identified, monitored and managed through the risk management processes in place, which drives the ICAAP. The risks assessed are as prescribed in GENPRU 1.2.30 and result in the Group's Pillar 2 capital requirement. This is reviewed appropriately throughout the year. The ICAAP report has been subject to the FSA's review.

Non-trading book exposures

The Group's non-trading book exposures in equities and interest rate risk are disclosed in the 3i Group plc Annual Report and Accounts 2009.

Appendix 1 – 3i Investments plc solo capital resources and requirement as at 30 September 2009

The Group manages risk at the group level and as such 3i Investments plc is subject to the same risk management processes. For 3i Investments plc's solo return the following table discloses its capital resources and requirement as at 30 September 2009:

	£'000s
Tier one capital	
Permanent share capital	10,000
Profit and loss account and other reserves	5,902
	15,902
Deductions from tier one and two capital	-
Total tier one plus tier two capital after deductions	15,902
Credit risk	358
Market risk	74
Total credit and market risk (A)	432
Fixed overhead requirement (B)	9,410
Total variable capital requirement (Higher of (A) or (B))	9,410
Excess capital resources	6,492